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Accountability \* Integrity \* Reliability

United States Government Accountability Office  
Washington, DC 20548

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March 14, 2013

Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, New York 10017

Subject: *International Auditing and Assurance Standards Board November 2012 Exposure Draft*, International Standard on Auditing (ISA) 720 (Revised); The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon and Proposed Consequential and Conforming Amendments to Other ISAs

This letter provides the U.S. Government Accountability Office's (GAO) comments on the International Auditing and Assurance Standards Board's (IAASB) exposure draft on other information in documents containing audited financial statements and the auditor's report thereon.

We support the IAASB's efforts to improve the auditing standards and believe it is important to clearly state the auditor's responsibility related to other information. We do, however, have a number of specific comments on the proposed revisions to the standard, including our concerns related to the auditor's ability to identify all the different information that may be associated with the auditor's report, the information reviewed by the auditor that could be subject to change or revision, and the level of work expected of the auditor to meet the requirements. Specific comments requested by the board are described below and include further detail on our concerns.

### **Request for Specific Comments**

*1. Do respondents agree that there is a need to strengthen the auditor's responsibilities with respect to other information? In particular, do respondents believe that extending the auditor's responsibilities with respect to the other information reflects costs and benefits appropriately and is in the public interest?*

While we believe that expanding the auditor's responsibilities has merit, we are concerned about several issues that should be clarified. For example, while paragraph 10 (a) indicates that the auditor shall "discuss with management the nature and timing of the documents that are expected to be issued in connection with the initial release and determine which of them are within the scope of this ISA," the standard does not clarify that the auditor's responsibility to read and consider other information is limited to information identified through this discussion with management. We believe the proposed ISA would be improved if it clearly stated that

the auditor's responsibility extends only to other information identified through this discussion with management and of which the auditor is otherwise aware. Further, we believe the proposed ISA would be improved if it provided a more definitive description of the types of documents that may be considered to constitute "other accompanying information" to ensure consistency of practice. For example, the proposed ISA would be improved by describing that other information may be issued in different formats or different media (i.e., print or electronic) or be described by different names.

Further, we are concerned that certain types of other information could be subsequently changed without the knowledge of the auditor, particularly those that are not incorporated into the same document as the financial statements.

We are also concerned about the challenge of notifying users of the auditor's report that some of the accompanying information reviewed by the auditor could be subject to change or revision. However, we believe that auditors may be able to report that they read and considered other information as of a certain date, and that they would have no control over any subsequent changes to accompanying information. For example, auditors could state that they reviewed the accompanying information on a certain date, at a certain time, and from a certain location (i.e., website address). We encourage the IAASB to consider expanding the guidance included in the ISA to address the possibility of subsequent changes to other information and any impact this may have on the auditor's responsibilities.

*2. Do respondents agree that broadening the scope of the proposed ISA to include documents that accompany the audited financial statements and the auditor's report thereon is appropriate?*

As noted in our response to question 1, we are concerned about the challenge for auditors to identify all the different information that may be associated with the auditor's report.

*3. Do respondents find the concept of initial release clear and understandable? In particular, is it clear that initial release may be different from the date the financial statements are issued as defined in ISA 560?*

We believe that there may be some confusion as to what is meant by "initial release" as we find that the IAASB's definition of the term is not clearly stated. The board notes in its Application and Other Explanatory Material (paragraph A5) that documents issued by the entity in connection with the initial release may not all be released to the users for whom the auditor's report is prepared *on the same date as the initial release*, and documents that are issued after the initial release may be deemed to be issued in connection with the initial release under certain circumstances. We believe the IAASB should develop clearer criteria for describing the documents issued in connection with the initial release.

*4. Do respondents agree that the limited circumstances in which a securities offering document would be in scope (e.g., initial release of the audited financial statements in an initial public offering) are appropriate or should securities offering documents simply be scoped out? If other information in a securities*

*offering document is scoped into the requirements of the proposed ISA in these circumstances, would this be duplicating or conflicting with procedures the auditor may otherwise be required to perform pursuant to national requirements?*

We have no comment on the limited circumstances in which a securities offering document would be in scope.

*5. Do respondents consider that the objectives of the proposed ISA are appropriate and clear? In particular:*

*(a) Do respondents believe that the phrase “in light of the auditor’s understanding of the entity and its environment acquired during the audit” is understandable for the auditor? In particular, do the requirements and guidance in the proposed ISA help the auditor to understand what it means to read and consider in light of the auditor’s understanding of the entity and its environment acquired during the course of the audit?*

*(b) Do respondents believe it is clear that the auditor’s responsibilities include reading and considering the other information for consistency with the audited financial statements?*

We believe that the phrase “in light of the auditor’s understanding of the entity and its environment acquired during the audit” should be clarified in the requirements section. Specifically, the linkage or relationship to ISA 315 should be clarified in the requirements.

In addition, we believe that it is clear that the auditor’s responsibilities include reading and considering the other information for consistency with the audited financial statements. However, it is not clear what level of work is expected of the auditor to meet these requirements. Specifically, the procedures listed in paragraph A37, such as determining whether calculations within a reconciliation are arithmetically accurate, imply more work than what may generally be interpreted as “reading and considering.” We believe that the guidance for the nature and extent of the procedures in paragraph A37 is appropriate, but believe that the requirements should be more clear as to what “read and consider” means, as a literal reading of the term may imply a lesser level of work than was intended and the application and other explanatory material is not authoritative. For example, a clear requirement stating that any data presented in the other information that are intended to be the same as or can be reconciled to financial data should be agreed to the financial information in the financial statements would lead to a greater consistency of practice related to this information.

*6. Do respondents agree that the definitions of terms of “inconsistency” including the concept of omissions, and “a material inconsistency in the other information” are appropriate?*

We believe that the terms “inconsistency,” including the concept of omissions, and “a material inconsistency in the other information” are generally appropriate. However, we find that the terms “unreasonable or inappropriate” and “omits or obscures” which are used to describe an “inconsistency in the other information” are subjective

and unclear and may lead to inconsistent interpretation as to what is inconsistent. For example, auditors reviewing the same information might arrive at different conclusions as to what information is unreasonable or inappropriate. We recommend that the IAASB revise the definition or include additional guidance or examples of the meaning of the terms “unreasonable or inappropriate” and “omits or obscures.”

*7. Do respondents believe that users of auditors’ reports will understand that an inconsistency relates to an inaccuracy in the other information as described in (a) and (b) of the definition, based on reading and considering the other information in light of the auditor’s understanding of the entity and its environment acquired during the course of the audit are appropriate?*

We believe that users of auditors’ reports will understand the meaning of “inconsistency” in this context. However, as noted in our response to question 6, we find that the terms used to describe an inconsistency are subjective and unclear and may lead to differing interpretations.

*8. Do respondents agree with the approach taken in the proposed ISA regarding the nature and extent of the auditor’s work with respect to the other information? In particular:*

*(a) Do respondents believe the principles-based approach for determining the extent of work the auditor is expected to undertake when reading and considering the other information is appropriate?*

We agree with the IAASB’s decision to adopt a principles-based approach instead of a prescriptive approach, and agree that this will most likely drive auditors to make judgments about, and tailor their work effort in response to, the different situations. However, we believe that the proposed standard would benefit from a greater discussion of risk analysis. This would more effectively leverage the auditors’ resources and provide guidance to the auditor for identifying data that may have a material effect on the users’ understanding of the report. For example, some other information may be more subject to misstatement or inconsistency or may be more likely to affect financial data.

*(b) Do respondents believe the categories of other information in paragraph A37 and the guidance for the nature and extent of the work effort for each category are appropriate?*

We believe that the categories of other information described in paragraph A37 and the guidance for the nature and extent of the work effort for each category are appropriate. However, as noted in our response to question 5, the requirements related to “read and consider” should be clarified.

*(c) Do respondents agree that the work effort is at the expected level and does not extend the scope of the audit beyond that necessary for the auditor to express an opinion on the financial statements?*

As noted above, we believe that the categories of other information described in paragraph A37 and the guidance for the nature and extent of the work effort for each

category are appropriate. Performing such procedures could provide additional evidence concerning the information contained in the financial statements.

*9. Do respondents believe that the examples of qualitative and quantitative information included in the appendix in the proposed ISA are helpful?*

We believe that the examples of quantitative and qualitative financial information included in the appendix in the proposed ISA are helpful.

*10. Do respondents believe it is clear in the proposed requirements what the auditor's response should be if the auditor discovers that the auditor's prior understanding of the entity and its environment acquired during the audit was incorrect or incomplete?*

We believe the proposed requirements are clear in describing the auditor's response should the auditor discover that their prior understanding of the entity and its environment acquired during the audit was incorrect or incomplete.

*11. With respect to reporting:*

*(a) Do respondents believe that the terminology (in particular, "read and consider," "in light of our understanding of the entity and its environment acquired during our audit," and "material inconsistencies") used in the statement to be included in the auditor's report under the proposed ISA is clear and understandable for users of the auditor's report?*

We support the inclusion of a statement in the auditor's report regarding the auditor's responsibility for the other information. However, as discussed in our response to question 5, we believe that the terms need clarification. Such clarification should extend to example report language so that users have a clear understanding of the auditor's procedures. For example, the terminology "read and consider" may not clearly convey the scope of work performed by the auditor. We encourage the IAASB to consider clarifying the intent of the terminology "read and consider" and "in light of our understanding of the entity and its environment acquired during our audit." We further encourage the board to clarify the guidance regarding the statement to be included in the auditor's report, consistent with any clarifications made to the requirements.

*(b) Do respondents believe it is clear that the conclusion that states "no audit opinion or review conclusion" properly conveys that there is no assurance being expressed with respect to the other information?*

We believe that it is clear that a conclusion stating that "no audit opinion or review conclusion" properly conveys that the auditor expresses no assurance with respect to the other information. Also, we strongly support the requirement in paragraph 16(c) that the auditor's report include a statement addressing whether, based on reading and considering the other information obtained, the auditor has identified material inconsistencies in the other information, and, if so, a statement describing them. Such information provides the reader with a clear understanding about whether the auditor identified any material inconsistencies.

*12. Do respondents believe that the level of assurance being provided with respect to other information is appropriate? If not, what type of engagement would provide such assurance?*

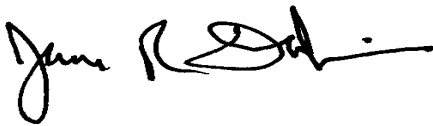
We believe that the level of assurance being provided with respect to other information is appropriate.

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As stated in our previous comment letters, we strongly encourage the recognized accounting and auditing standard setters, including the IAASB, the Public Company Accounting Oversight Board, and the Auditing Standards Board, to coordinate the development of any new requirements regarding the auditor's responsibilities relating to other information with a goal of harmonizing the auditor's responsibilities to the maximum extent possible.

We thank you for considering our comments on this important issue as the IAASB continues to clarify the auditor's responsibilities relating to other information in an effort to improve the auditor's report, in addition to augmenting its relevance and usefulness to stakeholders.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James R. Dalkin". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

James R. Dalkin  
Director  
Financial Management and Assurance